



Financial Advisor to Catholic Institutions

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April 5, 2011

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street
Alexandria, VA 22314
Via email: commentletters@msrb.org

Re: MSRB Notice 2011-16 (February 22, 2011) Request
For Comment on Gifts and Gratuities Rule for
Municipal Advisors

Dear Mr. Smith:

The following comments are submitted by Catholic Finance Corporation (“CFC”) to the Municipal Securities Rulemaking Board (“MSRB”) relating to MSRB Notice 2011-16 (February 22, 2011) with respect to the proposed amendments to MSRB Rule G-20 (on gifts and gratuities) as they apply to municipal financial advisors, as well as associated draft amendments to MSRB Rule G-08 (on books and records) and to MSRB Rule G-09 (on preservation of records). CFC appreciates the opportunity to respond to the request for comments by the MSRB.

CFC is a nonprofit corporation and has been determined to be an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Tax Code”) under the group determination letter of the Internal Revenue Service to the United States Conference of Catholic Bishops by inclusion in the Official Catholic Directory. CFC was formed to provide financial assistance and financial advisory services to other entities within the Catholic Church. Some of the services provided by CFC are municipal advisory services to obligated persons.

This background is presented to provide the context for our comments which relate to nonprofit advisors, advisors created to provide services to a group of related nonprofit entities as obligated persons rather than the actual political subdivision issuing the municipal securities. Additional specificity or clarification in the rules is requested with respect to some unique aspects of municipal advisory activities of the above-described municipal advisors.

CFC has no objection to the regulation of gifts, gratuities and non-cash compensation generally. However, while the proposed rule appears to address only gifts and gratuities commonly described and understood as “business gifts or entertainment” for individuals

involved in a business transaction, some of the prohibitions could extend to practices which should not be covered by this rule.

As part of its tax exempt purpose, CFC, as a nonprofit corporation, provides many services other than those considered to be municipal advisory. In particular, a non-profit advisor may receive donations to be used to provide financial assistance directly to its client group. This assistance can include grants and gifts of cash or services, loans at market or subsidized interest rates, providing additional collateral reserve funds, or other support for third-party loans. In addition, accounting, budgeting, financial modeling, debt management and other consulting services, as well as the municipal advisory services to the obligated person may be provided free of cost or at significantly reduced rates. While these items are arguably gifts, it is not the type of gift that should be included in the proposed rule and can be defined narrowly enough to be a very limited exception to the proposed rule.

We request that gifts, grants, loans and other financial assistance or services given by a 501(c)(3) nonprofit entity within its exempt purpose be expressly excluded from this proposed rule. A specific recognition of an exclusion is requested for such grants, to the extent undertaken within the exempt purpose of an entity described in Section 501(c)(3) of the Tax Code. The difficulty of determining under the proposed rule whether it applies to the recipient of the services or only to its employees or whether such financial assistance or services violate the proposed rules may be sufficient to cause a chilling effect on charitable activities. This is particularly important as the municipal advisory activities are generally a small part of the total services provided to any particular entity.

We are not requesting that all gifts to the recipient of the financial advisory services be excluded. Gifts or pricing arrangements to provide municipal advisory services by for-profit entities not in the course of their normal business dealings and not a principal purpose of the entity may be an appropriate area of regulation.

With respect to the proposed compensation for service provisions, the scope of the rule appears to apply to any person other than the municipal advisory entity itself. The employees of the municipal advisor should be expressly excluded for any work within their scope of employment. There normally would not be a separate written agreement with respect to compensation or work done on any particular engagement of the municipal advisor. Further, within context of a nonprofit municipal advisor which is part of a group of related nonprofit organizations, employees of one nonprofit may undertake some work done by the municipal advisor. So long as the person providing the services is not an employee of the entity receiving the municipal advisory services, but is an employee or has a contract with a related nonprofit entity to the municipal advisor, such person should not fall within the scope of the proposed rule.

We thank you for your thoughtful consideration.

Sincerely,



Michael P. Schaefer
Executive Director

cc Paul Tietz, Briggs and Morgan